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ORIGIN EUR-25

INFO OCT-01 ISO-00 CIAE-00 PM-07 INR-11 L-03 ACDA-19

NSAE-00 PA-04 RSC-01 PRS-01 SP-03 USIA-15 TRSE-00

SAJ-01 SS-20 NSC-07 NSCE-00 OMB-01 DODE-00 IO-14

INRE-00 /133 R

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JS/J-4 - COL. RAY (INFORMED)

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O R 181416Z JUL 74

FM SECSTATE WASHDC

TO USMISSION NATO IMMEDIATE

INFO AMEMBASSY PARIS

USCINCEUR

NSE/NSSG SHAPE BELGIUM

C O N F I D E N T I A L STATE 155424

E.O. 11652: GDS

TAGS: NATO, XG, ETRN

SUBJECT: CEPS COST SHARING

REF: (A) USNATO 3631, (B) STATE 138216, JULY 11, 1973

1. CONCUR IN APPROACH TO COST SHARING AS INDICATED BY
US REP IN PARA IIIA, REFERENCE A. ALSO CONCUR IN CONTIN-
UED RESERVE ON EXTENSION OF LEHAVRE-VALENCIENNES CONTRACT
PENDING REVIEW OF CEOA COST STUDY AND MISSION ASSESSMENT
THAT GUIDANCE IN REF B HAS BEEN MET.

2. FYI: ANY SIGNIFICANT REDUCTION IN THE U.S. SHARE OF
CEPS ANNUAL DEFICITS WILL BE WELCOME. NEVERTHELESS, WE ARE
IN AGREEMENT WITH THE GENERAL CEPPC VIEW THAT REVENUE AND
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OPERATING COST OF CEPS CANNOT BE BROUGHT INTO BALANCE. WE

ALSO AGREE WITH GENERAL OBSERVATION THAT THE CEPS IS INTENDED TO BE A WARTIME ASSET WHICH LIKE OTHER MILITARY READINESS FACILITIES CONTAINS NO PRE-DETERMINED REQUIREMENT THAT IT BE ENTIRELY SELF-AMORTIZING. IN LIGHT OF THESE CONCLUSIONS, YOUR COMMENT ON THE FOLLOWING OBSERVATIONS AND SUGGESTIONS WOULD BE APPRECIATED:

A. FOR MORE THAN A DECADE, CIVIL USE OF THE CEPS HAS BEEN ENCOURAGED AS A MEANS TO ENHANCE SYSTEM READINESS AND REDUCE THE OPERATING DEFICIT. NOTWITHSTANDING, THE DEFICIT HAS GROWN RAPIDLY IN RECENT YEARS AND GROWTH SHOWS NO SIGN

OF ABATING. CIVIL USE OF SYSTEM WAS ORIGINALLY CONCEIVED AS MEANS OF DEVELOPING REVENUE BY EMPLOYING UNUSED SYSTEM CAPACITY WITHIN CAPABILITY OF EXISTING SINGLE SHIFT STAFF. IT HAS NOW DEVELOPED A MOMENTUM OF ITS OWN, WITH SOME SEGMENTS OF CEPS ON THREE SHIFT BASIS, TOTAL SYSTEM EMPLOYMENT WELL BEYOND SINGLE SHIFT CAPACITY, CIVIL MOVEMENTS REPRESENTING 80 PER CENT OR MORE OF TOTAL TRAFFIC, AND ACCELERATING WEAR-OUT OF MECHANICAL EQUIPMENT WITHOUT TARIFF PROVISION FOR REPLACEMENT. WE BELIEVE ORIGINAL CONCEPT OF CIVIL USE HAS BEEN LOST, AND PRESENT SITUATION, WHILE DOING LITTLE TO REDUCE SYSTEM FINANCIAL DEFICITS, POSED DANGERS TO WARTIME CEPS READINESS BY MAKING SUBSTANTIAL ELEMENTS OF CIVIL DEMAND DEPENDENT ON A MILITARY SYSTEM WHICH IN THEORY WILL BE DENIED TO CIVIL MOVEMENT IN TIME OF WAR.

B. IT SEEMS APPARENT CEPS CANNOT BE RUN AS EFFICIENT, COMPETITIVE, PROFIT-MAKING COMMERCIAL PIPELINE SYSTEM. AVAILABILITY FOR CIVIL MOVEMENT COULD BE ON CONVENIENCE BASIS WITHOUT ATTEMPT TO BE COMPETITIVE WITH OTHER MODES, AT TARIFFS WHICH GUARANTEE RETURNS IN EXCESS OF REALIZED AND POTENTIAL COSTS.

C. IT MAY NOW BE TIME TO UNDERTAKE A REVIEW OF RE-TURNING CEPS TO A SINGLE SHIFT MANNING BASIS, UNDER CRITERIA SUCH AS THE FOLLOWING: (1) MILITARY MOVEMENTS HAVE PRIORITY AT ALL TIMES; (2) CIVIL MOVEMENTS WILL NORMALLY BE RESTRICTED TO SPARE CAPACITY WITHIN SINGLE SHIFT

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OPERATION AT TARIFFS AT LEAST EQUAL TO MILITARY TARIFFS, AND INCLUDING PROVISION FOR DEPRECIATION OF EQUIPMENT; (3) HOST AND USER NATIONS SHARE ANY RESULTANT DEFICIT AS VALID NATO MILITARY READINESS COST UNDER AGREED FORMULA; (4) WHEN A HOST NATION DESIRES CIVIL MOVEMENTS IN EXCESS OF SINGLE SHIFT CAPACITY, IT MUST SET TARIFFS FOR EXTRA SHIFT AT LEVEL WHICH WILL PROVIDE FOR DEPRECIATION, MEET ALL EXTRA SHIFT PERSONNEL AND OTHER OPERATING COSTS, AND

INCLUDE PRO-RATA SHARE, BASED ON TOTAL MOVEMENTS, OF ALL
OVERHEAD COSTS OF ANY NATURE RELATING TO THE CEPS SEGMENT
CONCERNED. END FYI. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY PERSONNEL, CEPS, PERSONNEL MOVEMENTS, FORCE & TROOP LEVELS, MEETINGS, MEETING PROCEEDINGS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE155424
Document Source: CORE
Document Unique ID: 00
Drafter: MR. NOLAN
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740193-0579
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740737/aaaabfst.tel
Line Count: 118
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: (A) USNATO 3631, (B) STATE 138216, J, ULY 11, 1973
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 05 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 APR 2002 by worrelsw>; APPROVED <20 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CEPS COST SHARING
TAGS: ETRN, XG, NATO, NAC, (CHORAFAS)
To: NATO BRUSSELS
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005